$57,435,000 that GTOC has filed. GTOC has identified exclusions to its tandem switching reallocation obligation of $20,765,506 for signaling and tandem port costs, which have been targeted separately. GTOC's tandem switching reallocation from the TIC, less these adjustments, then, is $64,806,666 -- not the $36,669,514 figure GTOC alleged -- one-third of which ($21,602,222) must be removed from the TIC on January 1, 1998.

Likewise, Ameritech, BellSouth, GSTC and Sprint have also erred in their development of tandem switching to total TIC factors required to determine current tandem switching revenues. These flawed ratios, applied to June 30, 1997 TIC revenue requirements, produced lower portions of TIC subject to reallocation. As described in Exhibit D, these companies' filings have understated their obligations to remove Tandem Switching revenue from their TIC by over $11 million and, consequently, they should be ordered to use the corrected portion of TIC subject to reallocation in determining their reallocation obligations.

Sprint has further erred in removing one-third of Tandem Switching from the TIC by excluding DS3/DS1 multiplexing revenue from the basis. Sprint has identified total Dedicated DS3/DS 1 MUX revenues[16] of $233,893. From this, Sprint has targeted 80%, or $187,098, for removal from the TIC.[17] However, Sprint's process has deducted these revenues from the current Tandem Switching identified in the TIC. By attempting to reduce the Tandem Switching obligation with this adjustment, Sprint has understated its Tandem Switch removal liability by $187,098. Sprint should be required to remove the Dedicated DS3/DS1 MUX revenues independent of its obligation to remove one-third of current Tandem Switching.

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[16] Sprint, Exh. 3-11, p. 3 of 3.

[17] Sprint, Exh. 3-11, p. 2 of 3.

B. Price Cap LECs Improperly Estimated The Impacts On The TIC Arising From Actual Volumes Rather Than Presumed Minutes Of Use.

The Access Reform Order (at ¶ 207) directed the LECs to use actual minutes of use ("MOUs") per circuit rather than an assumed 9000 minutes of use to develop their common transport rates. Based on LEC statements that their actual circuit loadings are substantially lower than 9000 MOUs, the Commission concluded that "the current rate structure is unlikely to recover the full costs of common transport" and that "costs that properly should be recovered from the common transport rate elements may currently be recovered through TIC revenues[ ]" Accordingly, the LECs were ordered to recalculate their rates for the common transport portion of tandem-switched transport "using a weighted average of DS1 and DS3 rates reflecting the relative numbers of DS1 and DS3 circuits in use in the tandem-to-end office link, and using the actual voice-grade switched access common transport loadings[.]" Id. ¶ 206. It was expected that many LECs would use circuit loadings below 9000 minutes, so that the effect would be to shift revenue from the TIC into common transport

For the majority of LECs, however, the recalculated common transport rates turned out to be lower than their existing rates.[18] As a result, the LECs propose exogenous adjustments that remove revenue from the tandem-switched transport category and add that revenue to the TIC category. As shown in Exhibit E, the total increase in TIC revenues resulting from common transport adjustments amounts to $57.3 million.

[18] This is partly because many of the LECs used circuit loadings greater than 9000 minutes, and partly because current DS1 and DS3 rates are generally lower than they were in 1993 when the initial common transport rates were developed.

AT&T has no objection to LECs reducing their common transport rates on the basis of actual circuit loadings and current DS1 and DS3 rates; however, the use of TIC revenues to finance these reductions is contrary to the Access Reform Order. It is clear from that order that the Commission expected the recalculation of common transport to result in higher common transport rates and reduce the TIC: "we require incumbent LECs to use any increase in common transport revenues to decrease the TIC[ ]" Id. ¶ 208. Thus, using TIC revenues to finance the reduction in common transport rates is contrary to what the Commission intended. If the LECs wish to reduce their common transport rates, they are free to do so, but should not be permitted to do so at the expense of increasing the TIC

C. GTOC/GSTC Have Inflated TIC Rates By Using An Incorrect Number Of Minutes Of Use In Calculating Tandem Switched Transport DS3 To DS1 End Office Multiplexing Revenues.

To comport with the Commission's efforts to create greater competition and efficiency as well as greater savings to the customer by reducing the revenues LECs generate through the TIC, in the Access Reform Order (at ¶ 165) the Commission concluded that incumbent LECs should be required to implement a cost-based rate structure for tandem-switched transport in four stages over a two year transition period. Again, however, errors have been made in the TIC aspect of this filing, this time by GTOC/GSTC. In the first step of the restructuring for access tariffs becoming effective on January 1, 1998 incumbent price cap LECs are directed to establish new rate elements for recovery of the costs of DS3/DS1 multiplexers used in conjunction with the tandem switch. Id. ¶ 167. With the adoption of the new rate elements, LECs are directed to reduce the TIC to reflect the recovery of these costs in the new DS3/DS1 multiplexing rate elements. Id. ¶ 173.

For multiplexers used between the tandem switch and the end office, two new rate elements would recover the costs of DS1/voice grade multiplexers and the costs of DS3/DS1 multiplexers. LECs were directed to calculate these charges based on actual common transport circuit MOUs and assess the per minute charges to IXCs on a 1:1 ratio to common transport minutes of use. Id. ¶ 172. Price caps LECs were further directed to reallocate revenues currently recovered via the TIC to these elements and begin recovery of multiplexing costs using these elements effective January 1 1998. Id. ¶ 173

GTOC and GSTC have developed their rate for the DS1/DS3 tandem to end office multiplexing minutes of use in a manner that is consistent with that employed by other incumbent LECs. However, in developing the total revenue to be associated with this new per minute rate element, GTOC and GSTC have multiplied the per minute rate by 1996 minutes which do not equal common transport minutes of use on a 1 1 ratio as specified in the Access Reform Order (at ¶ 172). GTOC and GSTC have instead multiplied the tandem to end office multiplexer minute of use rate to what they term "1996 DS3/DS1 Mux Tandem Switching Units," which are itemized in workpapers provided with their filings,[19] and which are different from their 1996 switched transport fixed units used to develop their rates for common transport.[20]

The resulting total DS3 to DS1 multiplexing revenues are thus different, and substantially lower than what they would have been had GTOC and GSTC multiplied their per minute rate by their common transport minutes of use. GTOC and GSTC do not offer any explanation in their

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[19] GTOC Transmittal 1123, D&J, Exhibit 15, page 3 of 4, Column S; GSTC Transmittal 226, D&J, Exhibit 15, page 1 of 1, Column F

[20] Id. GTOC, D&J, Exhibit 17, page 1, column I; GSTC, D&J, Exhibit 17, page 1, column I.

Description and Justification or in their workpapers as to how these multiplexing "tandem switching units" were developed or why they are different from the common transport termination minutes used to develop their common transport rates. Accordingly, the negative exogenous adjustments to the TIC band made by GSTC and GTOC, which are intended to reallocate the costs currently being recovered by the TIC for these multiplexers to the tandem switched transport band, are also too low.

Exhibits F (GTOC) and G (GSTC) attached to this petition illustrate this underestimation by comparing the total revenues derived by GTOC and GSTC in their Exhibits 14 (which used the incorrect minutes of use) to total revenues that would have been derived if GTOC and GSTC had used the same common transport MOUs that they employed in developing their common tandem transport per minute rates in this same filing.[21] As column G of these Exhibits indicates, GTOC has allocated $1,975,000 less to the transport multiplexer revenues than should have been assigned, while GSTC's deficiency amounts to $677,000. Correspondingly, the amounts removed from the TIC for GTOC and GSTC are insufficient by these same amounts.

GTOC and GSTC should be ordered to recalculate their tandem transport shared DS1/DS3 multiplexer MOU revenues incorporating the same minutes as they used to calculate their tandem switched transport revenues and correct the positive exogenous adjustments made to their tandem switched transport bands. The recalculated revenue totals should also be adjusted from their TIC as a negative exogenous change.

[21] If GTOC and GSTC had developed their rates for tandem multiplexing minutes of use in the manner specified by the Access Reform Order (at ¶ 172), these minutes would be the same.

D. U S WEST Has Failed To Provide Sufficient Work Paper Detail To Verify The Validity Of Its Tandem Switched Transport And Common Transport Multiplexing Revenue Requirements And Exogenous Adjustments.

U S WEST also appears to have overestimated TIC revenues, but because it failed to provide sufficient workpaper detail, AT&T cannot verify the validity of its tandem switched transport and common transport multiplexing revenue requirements and exogenous adjustments. U S WEST has a low common transport multiplexing rate. In its TRP Workpaper 10, it provided its rate and revenue requirement as well as the amount of multiplexing revenue to be removed from the TIC. This workpaper reveals that U S WEST's new rate and revenue requirement were developed utilizing the current cost for DS3/DS1 multiplexing and that the rate contains the cost for one such multiplexer

It is impossible, however, to determine whether this rate fully recovers the cost of all common transport multiplexers because, in developing its rates and revenue requirements for tandem switched transport, U S WEST did not include a workpaper detailing its rate development. Thus it is unclear whether the cost of the second multiplexer is still embedded in the rate for tandem switched transport, nor can the new rates and revenues required for tandem switched transport be verified. Consequently, the tandem switched transport exogenous changes to the TIC claimed by U S WEST in its Workpaper 14 ($17,867,588) should be investigated.

E. Ameritech Has Developed Revenue Requirements And Exogenous Adjustments For The DSl/DS3 Common Transport Multiplexer That Are Significantly Lower Than Those Developed By Other Incumbent LECs, Raising Serious Questions About The Validity Of Ameritech's Calculations.

All incumbent LECs other than Ameritech utilized the same formula in developing the new DS3/DS1 multiplexer element and in adjusting the TIC rate. This formula involves dividing the LEC's existing fixed rate for a DS3/DS1 multiplexer, which is assessed on all subscribers of

Direct Trunked Transport, by their average minutes of use per trunk multiplied by the percentage of fiber facilities used to provide common transport in their networks. The result is a per minute rate, which according to the Access Reform Order (at ¶ 172), is to be applied to all common transport minutes of use. This per minute rate multiplied by demand thus yields a revenue requirement for the common transport DS3/DS1 multiplexer element, and exogenous adjustments equaling this requirement are made to the TIC band and to the Tandem Switched Transport band. Since all of these costs are currently recovered through the TIC, all exogenous adjustments to the TIC are negative.

Ameritech alone developed its DS3/DS1 multiplexer revenue requirement by what it claims is its fully distributed cost per minute for common transport multiplexing, and then multiplying this cost by the tandem switching minutes of use.[22] (See Exhibit H). While this method of determining its revenue requirement is not in and of itself objectionable or contrary to the intent of the Access Reform Order, the resulting per minute rate and total revenue requirements are considerably lower than those of other LECs, drawing into question the validity of Ameritech's calculations.

Exhibit I illustrates this shortfall by comparing Ameritech's results to those reported by Bell Atlantic. More specifically, Exhibit I juxtaposes per minute common transport DS3/DS1 multiplexing per minute rates, total calculated revenue requirements, and corresponding negative adjustments to the TIC. Bell Atlantic was selected because its per minute rates for common

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[22] Ameritech Transmittal No. 1135, page 16. Other LECs developed this rate using two multiplexers, removing the cost of one DS3/DS1 multiplexer from the tandem switched transport per minute rate, which has included the cost of an embedded multiplexer since the Local Transport Restructure filings.

transport multiplexing reflect the recovery of one DS3/DS1 multiplexer, and because Bell Atlantic-South's minutes of use, fixed multiplexing rates, and facilities mix are the closest to Ameritech.

Exhibit I clearly calls into question the development of Ameritech's revenue requirement for common tandem multiplexing. Using the DS3/DS1 multiplexer fixed rates as the cost basis for the multiplexing rate, the Bell Atlantic rates are over 275% and 500% higher, respectively, than Ameritech's rates. Exhibit I further illustrates the rate and revenue requirement for common transport multiplexing that would result if Ameritech had utilized a rate development formula consistent with the other incumbent LECs. These comparisons strongly indicate that the amount of cost recovered by Ameritech for common transport multiplexing may be as much as $1 million too low, thereby leaving a substantial, implicit, and improper subsidy in the TIC.

For these reasons, Ameritech's exogenous adjustment for the recovery of common transport multiplexing should be investigated. Ameritech should be made to explain why there is such a large discrepancy between the amount of revenue required to recover a DS3/DS1 multiplexer through the tandem switched transport rate and the same multiplexer recovered through the new tandem multiplexing rate.

F. SWBT Has Failed To Develop A Revenue Requirement And Make Exogenous Adjustments For The Recovery Of Multiplexers Used Between The Tandem Switch And The Serving Wire Center.

SWBT has failed to comply with the Commission's directive that LECs establish a flat-rated charge for multiplexers used between the tandem switch and the serving wire center, to be assessed pro-rata on the purchasers of dedicated DS3 trunks on the serving wire center side of the tandem. Access Reform Order ¶ 170. Establishment of this rate is part of the eventual elimination of the current unitary pricing structure for tandem switched transport. Id. ¶ 168. This new flat-rated multiplexer recovers the cost of multiplexers that are currently recovered via the TIC.

SWBT, in its Workpaper 10A, claims that "since a DS3/DS1 multiplexer rate element on the SWC side of the tandem switch already exists, there are no associated costs to transfer from the TIC service category to the tandem switched transport category for this rate element[.]"[23] This assertion is almost certainly incorrect. The current rate element, which is assessed to users of Direct Trunked Transport between the serving wire center and the tandem switch, may not recover all the costs that this new flat-rated multiplexing element is intended to recover.

Most, if not all LECs, have a rate element for multiplexing of direct trunked transport. The Access Reform Order (at ¶¶ 168-70) indicates, however, that this new flat-rated multiplexing element was created to aid in the elimination of the current unitary tandem transport structure and, therefore, it should be assessed on users of unitary transport, not direct trunked transport. Because it is unlikely that SWBT is assessing its DS3/DS1 direct trunked transport rate element on users of unitary transport, the costs of multiplexers required to provide unitary transport users are currently recovered -- improperly -- via the TIC. Even if SWBT intends to begin billing unitary transport users of DS3 trunks via its direct trunked transport rate, SWBT's current filing does not account for the reallocation of costs from the TIC to the tandem switched transport band, thereby contravening the Access Reform Order (at ¶ 173).

Consequently, SWBT should be required to show that it is currently recovering the costs of any multiplexers used to provide DS3 trunks to users billed under the unitary structure. If it is

[23] SWBT, Exhibit 10A, page 10-2.

unable to do so, SWBT instead should be required to develop its revenue requirements and flat rates for DS3 to DS1 multiplexing between the serving wire center and the tandem switch as well as make the necessary adjustments to its TIC and tandem switched transport via exogenous changes to the respective service bands.

G. Price Cap LECs Incorrectly Recalculated The Residual and Facilities-Based TIC Amounts That They Had Estimated In Their July 1, 1997 Filings, Thereby Improperly Inflating The TIC

In an effort to separate facilities-based revenues from residual costs, the Commission's Access Reform Order (¶¶ 64, 229-38) requires that LECs separate their June 30, 1997 TIC revenues between the portion of the TIC that is facility-related and that portion of their TIC that bears no relationship to any identifiable cost element -- the residual TIC. As an initial step, LECs were required "to compute their anticipated 'residual' TIC amount by excluding revenues that are expected to be reassigned on a cost-causative basis to facilities-based charges in the future." Id. ¶¶ 64, 235. And LECs were required, beginning with their July 1, 1997 filings, to apply "GDPI-X" adjustments solely to the "anticipated" residual TIC. If LECs were unable to estimate the "residual" TIC amount for their July 1, 1997 filings, an amount equal to 55% of its current TIC was to be used. Id. ¶ 235. LECs will continue to apply their annual "GDPI-X" adjustments to the residual until the residual becomes zero. Id. ¶ 235. The facilities-based elements will begin to be reallocated on January 1, 1998. As a consequence of the July 1, 1997 application of the entire GDPI-X adjustment to the TIC, the current residual TIC that is contained in the TIC is much lower than the residual TIC that existed on June 30, 1997. The LECs' filings reveal four distinct errors and problems in calculating the residual TIC, creating serious implications for the TIC itself.

First, many LECs did not perform TIC recalculations or remaining facilities-based portion of TIC calculations at all. The Commission directed price cap LECs to compute their "residual" TIC amounts by excluding revenues that are expected to be reassigned on a cost-causative basis to facilities-based charges in the future. LECs were to all have actual cost data reflecting facilities-based components of the TIC. The Commission clearly indicated that

> [i]f . . . any price cap incumbent LEC determines that its use of the applicable residual TIC estimate . . . resulted in more PCI reductions being targeted to the per-minute interconnection charge in its tariff filing to become effective on July 1, 1997, than were required to eliminate the per-minute interconnection charge, then that price cap LEC shall make the necessary exogenous adjustments to its PCIs and SBIs to reverse the effects of the excess targeting.

Access Reform Order ¶ 237. To comply with this requirement, the LECs must redo the GDPI-X targeting to the actual residual which they are to have computed in their instant filings. Unfortunately, (1) many LECs did not perform TIC recalculations or remaining facilities-based portion of TIC calculations at all; (2) all LECs inaccurately recalculated the TIC by not utilizing the TIC existing on June 30, 1997 as the starting point, or by failing to incorporate all TIC True-Up Exogenous Costs; (3) some LECs inaccurately calculated the remaining facilities-based portion of the TIC; and (4) only BellSouth properly applied its remaining facilities based portion of the TIC to be reallocated in its CAP-1 Ln 690 figures. (See Exhibit J).

Ameritech, Bell Atlantic, Cincinnati Bell, NYNEX, and Sprint failed to abide by the Commission's directives and provide adequate workpapers showing whether TIC reversal, as described above, is necessary.[24] Thus, these LECs may be required to true-up the TIC, but they

[24] Support Material For Carriers to File to Implement Access Charge Reform Effective January 1, 1998, DA 97-2345, Tariff Review Plans ¶ 130 (released November 6, 1997).

have neither done so nor provided the pertinent information indicating whether they need to do so.

Second, regardless of whether or not a LEC has provided sufficient detail, all LECs have made errors in the Commission ordered recalculation of the TIC. The Commission's Access Reform Order (at ¶ 237) requires price cap LECs to use the June 30, 1997 TIC in calculating the initial residual TIC, and then recalculate that residual TIC by removing facilities-based exogenous costs, to determine if excess PCI reduction in the TIC were performed in the July 1, 1997 filing. AT&T believes, based on its analysis of the LECs' recent filings, that errors arose in recalculation of the residual TIC due lack of a detailed methodology for recalculation.

To facilitate the Commission's and other interested parties' reviews of any refiling of TIC recalculations, AT&T recommends that the Commission instruct all LECs to utilize the workpaper format shown in Table 1, below.

TABLE 1

TIC RECALCULATION

		($ IN THOUSANDS)
100.	**JUNE 30, 1997 TIC (1997 ANNUAL FILING SUM-1 Ln 171b)**	XXXXXX
	TIC REMOVAL COSTS:	
200.	EOS/STP SS7 LINK	XXXXXX
210.	TANDEM SWITCH TRUNK PORT	XXXXXX
220.	TANDEM SS7 SIGNALING	XXXXXX
230.	TANDEM SWITCH REVENUE	XXXXXX
240.	SWITCH HOST/REMOTE	XXXXXX
250.	ACTUAL VS. 9,000 REINITIALIZATION	XXXXXX
260.	ZONE DIFFERENTIATION	XXXXXX
270.	MARKETING	XXXXXX
280.	COE MAINTENANCE	XXXXXX
290.	EO/TANDEM SWITCHED MUX	XXXXXX
295.	**TOTAL TIC REMOVAL COSTS (Sum Ln 200 to 290)**	**XXXXXX**
300.	**RECALCULATED TIC (Ln 100 minus Ln 295)**	**XXXXXX**
	FACILITIES BASED PORTION OF TIC:	
400.	UNITARY TRANSPORT PRICE RESTRUCTURE	XXXXXX
410.	2/3 TANDEM SWITCH REALLOCATION	XXXXXX
430.	**TOTAL FACILITIES BASED PORTION OF TIC (Ln 400 + Ln 410)**	**XXXXXX**
500.	**NEW RESIDUAL TIC (Ln 300 minus Ln 430)**	**XXXXXX**
600.	**TARGETED TIC (ANNUAL FILING SUM-1 LINE 237c)**	**XXXXXX**
700.	**EXCESS TARGETED TIC (IF Ln 600 < Ln 500, THEN 0 OTHERWISE Ln 600 minus Ln 500)**	**XXXXXX**

The errors identified in the LEC filings included the use of the July 1, 1997 TIC instead of the June 30, 1997 TIC. Specifically, BellSouth, GSTC, GTOC, Frontier, SWBT, and U S WEST utilized the July 1, 1997 TIC value. Aggregated across all COSAs, GTOC understated its TIC by $90 million in its TIC analysis. (GTOC Transmittal No. 1123, Exhibit 3, TIC-ANALYSIS, Column E-Column Y GTE should have utilized Column E figures in Column Y for its TIC recalculation.) BellSouth, SWBT, and U S WEST understated their TICs by $168 million, $120 million, and $182 million, respectively. As a result, these LECs have failed to determine whether a TIC true-up to reverse the excess X-Factor is required.

SWBT was the only LEC that identified all of the facilities-based TIC removal items in Table 1 above in its TIC recalculation. Other LECs did not itemize all TIC exogenous costs in their TIC recalculation workpapers, failing to document whether they removed the required costs. Specifically, Aliant (EXG-TIC) did not remove the EOS/STP SS7 Link and marketing. BellSouth (Appendix B TIC-WP) did not remove the zone differentiation exogenous costs. And Citizens' data varied among documents (EXG-1, Short Form TRP TIC Reallocation, and Short Form TRP Transitional Interconnection Charge Reallocation) making it impossible to verify the data. Further, Citizens did not demonstrate that it fully removed EOS/STP SS7 Link, zone differentiation and marketing in the Short Form TRP - Transitional Interconnection Charge (TIC) Reallocation. Nor is it apparent that GTOC removed zone differentiation and marketing in its calculations (GTOC Exhibit 3 TIC-Analysis) or that Frontier (D & J Exh I-5) removed EOS/STP SS7 Link, zone differentiation, and COE maintenance. Finally, U S WEST apparently failed to remove EOS/STP SS7 Link and marketing in WP-2 TIC TRUE-UP.

A third, related error, in separating the remaining facilities-based portion of the TIC was also made by several LECs in that they did not demonstrate what portion of the new recalculated TIC was facilities-based TIC to be reallocated. To ensure the facilities-based portion of the TIC is not targeted by price cap productivity reductions, the Commission required it to be identified and ultimately placed in a separate, supplementary TIC rate (for facilities-related costs not yet reallocated). This supplemental TIC was to include the remaining two-thirds of the tandem switch reallocation and the unitary transport restructure, but neither Aliant, Cincinnati Bell, NYNEX nor

Sprint appears to have made such a recalculation AT&T recommends that the Commission require all LECs to refile using Table 1 to ensure consistency and accuracy of the January 1, 1998 filings pertaining to this issue.

Finally, despite the Commission's apparent intent that price cap LECs utilize the calculation of the remaining facilities-based portion of the TIC to be reallocated for populating CAP-1 Ln 690, BellSouth was the only LEC to use the same figure in its Workpaper and in CAP-1 Ln 690. The Commission should require other LECs to follow BellSouth's example.

H. The Commission Should Require LECs To Apportion Their Marketing And COE Maintenance Exogenous Cost Changes To The Residual TIC.

In the Access Reform Order (at ¶ 223), the Commission also mandated that LECs separately identify the dollar amounts of COE maintenance that had been misallocated to the trunking and common line baskets and then move these amounts to Local Switching, effective January 1, 1998. Similarly, LECs are required to identify and remove their Account 6610 marketing expenses from all access rate elements that are not "purchased by, and marketed to retail customers." Id. ¶ 323. Both of these adjustments necessitate a downward exogenous adjustment to the TIC.

In their present filings, the LECs must allocate these exogenous cost amounts to the TIC as it existed prior to July 1, 1997. Otherwise, an excessive amount of the COE maintenance re-allocation and of marketing expense re-allocation will be ascribed to the facilities-based TIC[25]

[25] To illustrate, suppose that a LEC's total trunking basket on June 30, 1997 consisted of TIC revenue equal to $100 and that the LEC expected that the residual portion of the TIC would be 55%. Also assume that the X-Factor adjustment, implemented on July 1, 1997, removed the entire residual amount from the LEC's July 1, 1997 TIC. The LEC would currently have a TIC comprised solely of the remaining facilities-based TIC elements. The total facilities-based TIC that remained would be $45 For illustrative purposes assume that the LEC estimates its trunking

(continued . .)

Notwithstanding that the failure to properly implement the COE maintenance and marketing exogenous cost adjustments will distort the residual and facilities-based TIC components, no LEC has used its June 30, 1997 TIC in the adjustment process. Further, with the exception of SWBT and BellSouth, the price cap LECs have not applied both the COE maintenance and marketing exogenous cost adjustments to the TIC.[26] In order to rectify these errors, the Commission should require that all LECs properly apply the impact of their COE maintenance and marketing exogenous cost adjustments on the residual and facilities-based TIC as of June 30, 1997.

III. U S WEST AND BELL ATLANTIC APPLIED AN IMPROPER DEAVERAGING METHODOLOGY, AND THEREFORE MISCALCULATED EXOGENOUS ADJUSTMENTS ASSOCIATED WITH THE TRANSPORT SERVICE RATES.

In addition to miscalculations made in determining line port costs and TIC revenues, two LECs, notably U S WEST and Bell Atlantic, have also miscalculated exogenous adjustments associated with the transport service rates. The Access Reform Order (at ¶ 227) required any

(. . . continued)
basket exogenous cost adjustments to be a –$45. By applying the entire marketing and COE maintenance exogenous cost adjustment to only the facilities-based TIC, the LEC would have facilities-based transport rates equal to zero. In this case the LEC should have assigned –$25 (55% x –$45) to the June 30, 1997 estimated residual TIC and –$20 (45% x –$45) to the facilities-based portion of the TIC.

[26] Some price cap LECs, including Ameritech, Bell Atlantic, NYNEX and SNET, have not provided documentation on their TIC true-up calculations. Other LECs, such as Citizens, have provided documentation indicating that some portion of their TIC has been adjusted to reflect the COE maintenance exogenous cost adjustment, but not marketing costs. And still other LECs, such as Rochester, provide evidence that marketing adjustments have been made to the TIC but that the COE maintenance exogenous cost change has not been applied. Finally, the impact of the COE maintenance exogenous cost change is also shown by some LECs as having a positive impact. See, e.g., Aliant, supp. EXG-2, Line 200, column COEMNTCE.

LEC that already has deaveraged transport rates bv zone[27] to move an amount equivalent to the differential between low density and high density areas from the TIC to transport services. All the LECs used essentially the same methodology to calculate the revenue differential between their high and low density zones, but they differed in the way they reassigned these amounts to the affected transport service categories. Most importantly, U S WEST[28] and Bell Atlantic/NYNEX[29] improperly reassigned the revenue differential entirely to zones 2 and 3, which has the effect of increasing the differential in rates among zones For example, under this approach, if the revenue differential between zones 1 and 2 is calculated to be $100, a $100 exogenous increase would be targeted to rates in zone 2. If zone 2 rates were then increased by $100, the price differential between zones 1 and 2 would double.

There is no basis in the Access Reform Order for increasing the existing rate differentials among zones. To the contrary, the methodology used by U S WEST and Bell Atlantic/NYNEX is inconsistent with the Commission's directive that costs be reassigned "in a manner that reflects the way density pricing zones are being implemented by the incumbent local exchange carrier." Access Reform Order ¶ 227; 47 C.F.R. § 69 123(f)(3) In order to comply with this directive, costs must be reassigned to each zone in proportion to existing revenues in that zone. Indeed, all price cap LECs except U S WEST and Bell Atlantic/NYNEX applied this proportional methodology. Consequently, U S WEST and Bell Atlantic/NYNEX should be directed to

[27] Commission rules (see 47 C.F.R. § 69.123) permit the LECs to establish a "reasonable number" of geographic pricing zones within each study area and charge rates for DS1, DS3, and other transport services that differ depending on the zone in which the service is offered.

[28] U S WEST TRP, Workpaper 16.

[29] Bell Atlantic TRP, Workpaper DEAVG-S NYNEX TRP, Workpaper DEAVG-N.

recalculate their exogenous adjustments associated with transport rate deaveraging using the same methodology as the other LECs, whose adjustments were applied across all zones of the affected services.

IV. PRICE CAP LECS HAVE UNDERESTIMATED END USER COMMON LINE DEMAND.

The price cap LECs also have committed a serious error by underestimating end user common line demand. This underestimation subverts the Commission's goal of shifting common line costs from carriers to end users, and the Commission should therefore investigate the price cap LECs' demand, suspend their common line rates, and require the price cap LECs to support their results with adequate information.

The "common line" connects an end-user's home or business to an LEC central office. (Access Reform Order ¶ 67), and provides the end-user with residential and business telecommunications service. Residential service can be primary -- the initial line -- or non-primary ("NPRES") -- additional lines, while business service can be single line or multi-line ("MLB"). In addition, most incumbent LECs currently offer two types of integrated services digital network ("ISDN"): the basic rate interface ("BRI"), which is generally used by individuals and small businesses, and the primary rate interface ("PRI"), predominantly purchased by larger businesses. Id. ¶ 111. Consumer demand is estimated, in part, by line "counts" within these telecommunication service categories.

Consistent with the Commission's goal of having incumbent LECs recover a larger share of non-traffic sensitive ("NTS") common line costs from end users instead of carriers, the Commission, in its Access Reform Order (at ¶ 78), sought to increase the SLC for NPRES and MLB service. The Commission did not increase the SLC for primary residential and single-line business because the Commission believed that lower SLCs for these categories would promote the Commission's goals with respect to universal service. Id. ¶ 73. The only end user common line demand related change the price cap LECs were supposed to implement on January 1, 1998 was the transfer of ISDN-BRI line counts from the EUCL line counts into a new NPRES/ISDN-BRI category.

Without Commission authority, and without providing adequate supporting information, the price cap LECs, in their instant filings, have reduced MLB end user common line counts, have set forth PICC line counts that vary from EUCL line counts, and have improperly calculated NPRES EUCL line counts. As a result, the price cap LECs should be required to refile their EUCL and PICC calculations with the required supporting documentation.

A. Ameritech, BellSouth, SNET, GTOC, And GSTC Have Impermissibly Reduced MLB EUCL Counts.

Because the Commission concluded that the ISDN-BRI services are generally used by individuals and small businesses, the ISDN-BRI line counts should come from the $3.50 cap primary residential service and single line business EUCL line counts, not the $9.00 cap MLB EUCL line counts. No change should have occurred in the MLB EUCL line counts. Indeed, GTOC and GSTC adopted this approach in their November 26, 1997 filings, where they demonstrated that all NPRES/ISDN-BRI EUCL line counts (6,320,940 and 844,836 respectively) came from the residential and single-line business EUCL demands. (See Exhibit K).

Ameritech, Bell Atlantic, BellSouth. NYNEX, and SNET nevertheless reduced their January 1, 1998 MLB EUCL counts by 711,668, 1,887,804, 320,699, 1,600,144, and 30,428, respectively, a total reduction of 4,786,303, while the aggregated NPRES and primary residential service and single line business EUCL categories increased by a total of 4,187,749 lines. (See

Exhibit K). The impact of the MLB EUCL adjustment is contrary to the Commission's intent to increase recovery of total costs through the flat rate NPRES SLC cap. By using the NPRES SLC cap of $5.00 on these lines, instead of the MLB SLC cap of $9.00, the flat-rated SLC revenue is reduced by $16,750,996 and PICCs and CCL charges are increased by an identical amount.

These LECs described the MLB EUCL reduction as a move to the NPRES/ISDN-BRI category. However, Ameritech, Bell Atlantic, and NYNEX failed to provide data concerning this move. Without the supporting details concerning this move, it is not possible to determine why, after making this adjustment, Bell Atlantic's and NYNEX's LIFELINE EUCL counts decreased as shown in Exhibit K. Therefore, AT&T requests that the Commission require the LECs to provide adequate detail concerning the MLB EUCL change methodology they utilized. In addition, the Commission should specifically request that Bell Atlantic and NYNEX provide details concerning the reduction in LIFELINE EUCL demand.

GTOC and GSTC made different mistakes. In this context, as shown in Exhibit K, they impermissibly reduced their MLB EUCL counts that they had reported in their 1997 Annual filings. In aggregate, GSTC reduced its line count by 17,496 while GTOC's line counts decreased by 218,064, for a total reduction of 235,560 EUCLs. Bell Atlantic and NYNEX also reduced their aggregated EUCL count by 362,994 lines. These lines represent lost flat-rated SLC revenue. Accordingly, the Commission should order Bell Atlantic, NYNEX, GTOC, and GSTC to utilize the same total EUCL counts they filed in their 1997 Annual filings.

B. Ameritech, BellSouth, Bell Atlantic, GSTC, GTOC, NYNEX, And SNET All Have PICC Counts That Vary From The EUCL Counts In Their November 26, 1997 Access Reform Filings.

The Access Reform Order (at ¶ 71) requires price cap LECs to recover Common Line revenues not recovered from the SLC and other Common Line charges, through the primary interexchange carrier charge. The EUCL and PICC line counts always should be the same because the EUCL charges and the PICC both seek to recover the same costs. Accordingly, the Commission has provided the LECs with CAP-1 Lines 100-160 to document their EUCL and PICC demands. The identical variation for ISDN-PRI service is shown on CAP-1 Line 1120. The only other variation for ISDN-BRI is captured in CAP-1 formulas on page 4 of 8.

Despite the fact that EUCL and PICC line counts always should be the same, Ameritech, Bell Atlantic, BellSouth, GSTC, GTOC, NYNEX, and SNET all have PICC counts that vary from the EUCL counts in their November 26, 1997 filings. (See Exhibit L). The total deviation among LECs that filed is a 17,935,159 increase in PICC demand as compared to EUCL demand.

Ameritech filed PICC counts that were 2,281,343 lower than its EUCL counts. (See Exhibit L). In addition, the PICC counts for Lifeline Services were 24,626 lower than EUCL counts for those services. (See Exhibit L). AT&T questions Ameritech's claim (at Tariff No. 2, page 70.2.1) that there are currently known conditions under which the Commission will waive the PICC because that issue is the subject of a pending rulemaking. In addition, Ameritech's methodology described in Tariff No. 2 (at page 70.18, Item 3.8.1.F) specifies rates that result in a charge of $2.96 for a three number ISDN-BRI customer, an amount that exceeds the $2.75 MLB PICC cap. This is clearly impermissible.

While Ameritech apparently contends that PICC counts can be lower than EUCL counts, other LECs hold the opposite view. BellSouth, for example, filed PICC counts that were

4,844,514 higher than its EUCL counts. (See Exhibit L). In addition, BellSouth's Tariff No. 1 (at pages 4-5, Item 4.6.M) specifies a reduction of $3.50 for the SLC charge for certain customers. This reduction effectively cancels out the SLC charge as to those customers. The Commission should therefore suspend BellSouth's tariff.

Bell Atlantic filed PICC counts that were 6,046,896 higher than the total EUCL counts. As shown in Table 3, all line types, excluding Lifeline, had higher PICC than EUCL demands. Bell Atlantic stated on page 41 § 1.5.3 -- PICC Demand -- of its November 26, 1997 filing, that PICC demand is calculated by taking 1996 SLC demand and including Bell Atlantic business lines, which are not assessed SLCs.

NYNEX, GSTC, GTOC, and SNET also reported higher PICC demands as compared to EUCL demand. SNET and other price cap LECs' attempt to explain the higher PICC counts by alleging that they are caused by "Official" business lines and "Employee Concession" lines.[30] The Commission should order the LECs to treat official lines the same for SLC and PICC purposes. Specifically, if the LECs include official/employee lines in PICC counts, they should also include these lines in EUCL counts because they create loop costs just like any other EUCLs, and are utilized to access interexchange service.

C. Some Price Cap LECs Improperly Calculated Non-Primary Residential Line Counts.

In the Access Reform Order (at ¶ 83), the Commission decided not to define "primary" and "non-primary" lines. As an initial matter, for the purpose of determining the level of SLCs and PICCs to be applied, the Commission should either provide these definitions or

[30] See, e.g., Bell Atlantic (NYNEX) at 41; SNET at 15.

eliminate this distinction altogether. The lack of clear definitions has allowed price cap LECs to promulgate self-serving interpretations. AT&T. therefore, supports Sprint's proposal to eliminate the distinction between primary and non-primary lines. This would eliminate any gamesmanship in Non-Primary EUCL counts and would allow the Commission to charge a SLC for both categories that is sufficient to recover costs.[31]

All of the LECs' NPRES line counts fall below numbers AT&T expected to see. Because the SLC for NPRES lines has a higher ceiling than the SLC for primary residential service or single-line business service, end users will be undercharged, in contravention of the Commission's stated policy goal, if line counts are improperly assigned to the primary residence or single-line business categories rather than the NPRES category. AT&T utilized LEC Ex Parte submissions, Census Bureau data, and figures from Hatfield Model 4.0 national runs filed with the Commission to estimate NPRES line counts. Based on this information, AT&T estimated that NPRES line counts would run between 10%-20% of the total residential and single-line business demands.

The results of the November 26, 1997 filings show that the LECs' actual NPRES percentages, on average, of total residential and single line business EUCLs range from an extreme low of 3.39% for GSTC and 5.01% for GTOC to a high of 10.69% for Ameritech. (See Exhibit M). GTOC and GSTC specified that they utilized the subscriber lines per bill methodology, while Ameritech utilized the first line at a service address methodology. Bell

[31] As AT&T demonstrated in its Reply Comments (at 2) in Defining Primary Lines, CC Docket No. 97-181 (filed October 9, 1997), a weighted average PICC would produce at most a de minimus cost increase for some customers while relieving the Commission and carriers of significant administrative burdens.

Atlantic, BellSouth, NYNEX, and SNET set forth percentages of 10.14%, 9.35%, 7.69%, 6.31%, respectively. All of these figures are at the low end of, or below, AT&T's estimates.

As a result of these apparent understatements, the Commission should suspend all the price cap LECs' EUCL demands, place them under investigation, and require the price cap LECs to support their results with systems, search criteria and quantities, and types of lines moved to and from EUCL categories.

V. AS THE COMMISSION HAS PREVIOUSLY DETERMINED, GTOC AND GSTC HAVE OVERSTATED THEIR CCL RATES.

In its Annual Filing Order[32], the Commission concluded "[t]hat a LEC that has consistently understated its per-line BFP revenue requirement over the course of several years has also consistently and correspondingly inflated its maximum CCL rate." Among other carriers, GTOC and GSTC have regularly engaged in this practice as the Commission itself has determined: these companies "[h]ave repeatedly understated their per-line BFP revenue requirement, in a statistically significant manner since the advent of price cap regulation, and the effects of this understatement are now incorporated into the CCL rates of these LECs." Id. ¶ 102. The Commission's suggested formula for quantifying the effects of the BFP underestimation indicates that various LECs' current CCL rates -- including those now proposed by GTOC and GSTC -- are substantially overstated. And while the Commission has yet to order reductions to the LECs' price cap indices, the only question in dispute is by how much GTOC and GSTC have overestimated the CCL, not whether they have. Because these two local exchange carriers

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[32] In the Matter of 1997 Access Filings, CC Docket 97-149, Memorandum Opinion and Order, ¶ 101 (released December 1, 1997) ("Annual Filing Order").

operate in most states, accurately quantifying their particular levels of CCL overstatement will require an extensive examination. To that end, AT&T requests that the Commission suspend the GTOC and GSTC tariffs and investigate their proposed CCL rates.

VI. SOME PRICE CAP LECS HAVE MISALLOCATED USF EXOGENOUS COSTS AMONG PRICE CAP BASKETS.

In the Universal Service Order,[33] the Commission permitted LECs to recover their universal service contributions through their interstate rates. In the Access Reform Order (at ¶ 379), the Commission further stated that price cap LECs recovering their USF obligation through interstate access charges must recover those contributions in the baskets for services that generate end-user interstate revenues. AT&T's review of price cap LECs' November 26, 1997 filings indicates that a number of LECs have misallocated USF exogenous costs among price cap baskets.

The Access Reform Order (at ¶ 379) instructs that "[t]he baskets containing end-user interstate services are the common line, interexchange, and trunking baskets." Price cap LECs must therefore apply the full amount of the exogenous adjustment among these three baskets on the basis of relative size of end-user revenues" Id. ¶ 379 (emphasis added).

Citizens appears to have contravened the Commission's rules. Specifically, Citizens has erroneously used the "total" baskets' revenues for the distribution of the USF,[34] whereas it should have distributed its USF obligation based on the relative size of the end-user revenue in each basket.

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[33] Federal-State Joint Board on Universal Service, CC Docket No. 96-45, Report and Order ¶ 773 (released May 8, 1997).

[34] Citizens TRP, CTC1 & CTC2: Worksheet EXG-USF, Page 14, Ln 6.